GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4707
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CREDIT MOBILIZATION OF COMMERCIAL BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether the credit mobilization of commercial banks has increased by only 16.7% during 2007- 08 as against 22.6% in the previous year that shows slowing down of the economy;

(b) if so, the reasons therefor; and

(c) the steps taken by the Union Government in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PAWAN KUMAR BANSAL)

(a) to (c): As reported by Reserve Bank of India (RBI), the credit extended by Scheduled Commercial Banks (SCBs), including Regional Rural Banks (RRBs) increased by 21.6 per cent during the financial year 2007-08 as compared with 28.1 per cent in the previous year.

As stated in RBI`s Annual Policy Statement of April 2007, banks' non-food credit expanded above 30 per cent for three years in succession, driving up money supply and squeezing overall liquidity. During this phase of high growth in bank credit, there was substantial increase in lending to retail sector, particularly housing, real estate, trade, transport and professional services and non-banking financial companies − sectors, which hitherto were not significant in the credit market. While banks' exposures to some of these new sectors is still relatively small, given the low base, the high rates of growth have raised worries about the quality of these assets and potential non-performance. Accordingly, the Annual Policy Statement for 2007-08 indicated that, based on an overall assessment of the sources of funding, a graduated deceleration of non-food credit including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and commercial paper (CP) to 24.0-25.0 per cent in 2007-08 from the average of 29.8 per cent over 2004-07 is consistent with the monetary projections.

In accordance with this broad policy stance, various monetary measures, including raising of key rates, have been undertaken by the RBI. Since September 2004, repo/reverse repo rates have been increased by 175/150 basis points, the Cash Reserve Ratio (CRR) has been raised by 300 basis points, risk weights have been raised in the case of commercial real estate (from 100 per cent to 150 per cent) and consumer credit (from 100 per cent to 125 per cent) and general provisioning requirement for standard advances in specific sectors has been raised to 2 per cent of standard advances. Accordingly, a slowdown in non-food credit growth in 2007-08 from the persistent high rates that prevailed during 2004-07 is broadly in alignment with the indicative trajectory given in the Annual Policy Statement of April 2007.

As indicated in the Third Quarter Review of the Annual Policy Statement (January 2008), the overall stance of monetary policy in the period ahead will broadly continue to be:

To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment conducive to continuation of the growth momentum and orderly conditions in financial markets.

To emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

To monitor the evolving heightened global uncertainties and domestic situation impinging on inflation expectations, financial stability and growth momentum in order to respond swiftly with both conventional and unconventional measures, as appropriate.